

U.S. DEPARTMENT OF LABOR  
Employment and Training Administration  
Washington, D.C. 20213

CLASSIFICATION

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CORRESPONDENCE SYMBOL

TEUMI

DATE

April 14, 1983

ADVANCE COPY

DIRECTIVE : UNEMPLOYMENT

LETTER NO. 24-83

TO

ALL STATES

SECURITY AGENCIES

FROM

ROYAL S. LINGER  
Administrator  
Regional Management

SUBJECT

Reporting Discrepancies of Federal Unemployment Tax  
(FUTA) Credit Reduction Collections to the Internal  
Revenue Service (IRS)

1. Purpose. To announce a 2-year time limitation for reporting apparent discrepancies in the amount of FUTA credit reduction collections to the IRS.

2. Background. According to Chapter 23, Section 3302(c)(2) of the Internal Revenue Code, if an advance made to a State under Title XII of the Social Security Act remains outstanding on two consecutive January firsts and is not repaid by November 10 of the second taxable year after receiving the advance, employers in the State are subject to a reduction in FUTA credits.

The IRS provides employers in mid-January of the third taxable year with the 940 FUTA tax return form; this form shows the percentage of the credit reduction (not increase) in the FUTA tax rate which will be applied to taxable wages for FUTA purposes. The credit reduction is retroactive to January 1 of the preceding taxable year.

FUTA credit reduction collections received are applied to reduce outstanding Title XII advances on a first made first repaid basis. The Trust and Benefiting Funds Branch in the U. S. Treasury advises SESAs of the amount of credit reductions applied to outstanding Title XII advances on the monthly statement.

The large number of States now borrowing from the Federal unemployment account will create a massive accounting and crediting problem at the end of the years to come until these loans are repaid. To reduce the potential costs associated with handling requests from States for an accounting of FUTA credit reduction collections which could go back many years, IRS has established a 2-year time limitation for SESAs to report apparent discrepancies in FUTA credit reduction collections.

EXPIRATION DATE

April 30, 1984

DISTRIBUTION

3/30/86  
Extend

The 2-year limitation period begins January 1 of the year following the year which tax data are received and processed by the IRS. SESAs have 3 full years after the tax year in question to report discrepancies or request verification of previously reported data.  
Example:

Data for tax year 1981 are received and processed by IRS during 1982

Year number 1 ends December 31, 1983

Year number 2 ends December 31, 1984  
(Discrepancies must be reported by this date).

IRS advises that the 2-year limitation will begin with 1981 tax returns received and processed by them during 1982. Therefore, discrepancies must be reported to the IRS before December 31, 1984.

This procedure will not nullify requests for verification of FUTA credit reduction collections already made by SESAs, or in process, for tax years before 1981. Requests for verification of data or reporting of apparent discrepancies for tax years after 1981, which are outside of the 2-year limitation period for the tax year involved, must be accompanied by supporting documentation. IRS will consider such requests on their merits.

**4. Action Required.** SESAs should: a. Establish a monitoring system to identify and report apparent discrepancies in FUTA credit reduction collections to the IRS within the 2-year limitation period. b. Send requests for adjustment, verification of data, or to report apparent discrepancies in FUTA credit reduction collections to:

Mr. Frederick F. Perdue  
Director, Returns Processing and  
Accounting Division  
Internal Revenue Service  
Washington, D.C. 20224

and send a copy of the correspondence to the National Office, attention TBM.

**5. Inquiries.** Direct questions to appropriate regional office.